Before the
Federal Communications Commission
Washington, D.C. 20554

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| In the Matter of | ) | |
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| Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services | ) | CC Dkt. No. 96-112 |
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<u>COMMENTS OF THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY</u>

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## SUMMARY

As the Commission reviews Southern New England Telephone Company's (SNET's) comments in this proceeding, it should note that SNET has structured its regulated/non-regulated businesses very differently from other LECs. SNET is a wholly owned subsidiary of the Southern New England Telecommunications Corporation ("the parent") and provides regulated telephone service to almost all of Connecticut. All regulated plant is owned by SNET, is included in SNET's books, and is 100 percent allocated to regulated telephony activities. SNET provides no non-regulated services. All non-regulated services are provided by other affiliates of the parent. Because of this unique structure FCC rules do not require SNET to protect telephony ratepayers from the possibility of cross-subsidization by using cost pools to allocate assets and expenses between regulated and non-regulated activities, and SNET does not do so. Instead, the Commission's affiliate transaction rule (Section 32.27) requires that SNET protect telephony ratepayers by conducting all transactions with affiliates in accordance with the requirements of that rule, and SNET conducts its business in compliance with those requirements.

In these Comments, SNET first shows that cost allocation requirements are not necessary for a LEC that is either subject to price cap regulation or to effective competition. Forbearing from regulating the cost allocations of such LECs is both consistent with and supportive of the pro-competitive goals of the Telecommunications Act of 1996. Accordingly, the Commission should issue

cost allocation requirements that are transitional by "sunsetting" them automatically when a LEC meets either of these criteria.

Where competition exists, the ability to shift cost recovery to regulated ratepayers does not exist. Charging higher prices for services for which competitive alternatives exist will drive consumers to other providers. In Connecticut, competitive local exchange service providers presently have the capability to provide local service via resale, unbundled network elements, their own facilities, or a combination of all three. The availability of alternatives to traditional local exchange telephone service will effectively eliminate the LEC's historic "bottleneck" and will provide telephone users with a choice of local exchange providers. Price-cap regulation also can prevent LECs from repricing services to account for changes to underlying costs. Given these two safeguards, improper shifting of cost from non-regulated to regulated activities cannot reasonably affect the costs borne by regulated ratepayers.

Second, for the transitional period, the Commission should not mandate a single uniform approach to cost allocation for all LECs. Instead, SNET proposes that the Commission authorize LECs to use a limited set of alternative approaches so that each LEC may choose the approach that best meets local conditions. In this regard, SNET asks the Commission to permit a LEC to provide regulated transport service to an affiliate pursuant to the agency's affiliate transaction rule.

Third, SNET urges that its proposed cost allocation methodology be included among those adopted by the Commission. Under that methodology, SNET would directly assign to the cable service offered by its affiliate all costs directly attributable to cable service, and it would allocate 50 percent of the common loop costs of its new broadband network to cable service. SNET wishes, however, to clarify the record with regard to the 50/50 common cost allocator that is included in its proposed allocation methodology. The Commission incorrectly characterizes SNET's common cost allocator as allocating common costs of the loop equally between "regulated and nonregulated activities." See Notice at ¶39. In fact, SNET proposes a 50/50 allocation of new broadband loop common costs between telephony on one hand and broadband services, including cable TV, on the other. Initially, telephony and cable TV service each would bear 50 percent of these common costs. But as new broadband services are added, the relative percentage of common costs allocated to each of these two service categories (telephony and broadband) would decline regardless of whether the new services are "regulated" or "non-regulated".

Finally, SNET urges the Commission to apply cost allocation requirements which it adopts here not only to LECs, but also to incumbent cable TV operators. Just as LECs are preparing to enter the multi-channel video market, cable operators are entering the telephony market via their cable TV networks. If the Commission believes that regulation of a LEC's cost allocations between telephony and video is warranted on the theory that LECs have market power in telephony, the agency must impose these same requirements on <u>incumbent cable TV operators</u> as well since it has held that those companies have market power in the multi-channel video market.

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Recognizing that both LECs and cable operators are now in the process of upgrading their networks in order to enter each others' core markets, the Commission instituted this proceeding in an effort to reduce and simplify its regulation of the manner in which a LEC must allocate costs between telephony and the new multi-channel video services it offers over its new network.

However, the Commission's regulatory proposals are inconsistent with this fundamental objective in certain important respects. First, the agency proposes to regulate the manner in which all LECs allocate costs rather than limiting its oversight to those LECs with an incentive to misallocate costs. Thus, the agency proposes to retain cost allocation regulation for those LECs whose interstate and intrastate telephony prices are controlled under a system of price cap regulation even though price-cap-regulated LECs have no real incentive to misallocate costs. Similarly, the Commission proposes to regulate the allocation of costs by those LECs whose exchange telephone market is fully open to competition even though such LECs have no economic incentive to misallocate costs.

Not only is the Commission's proposal overly broad in that it fails to recognize circumstances in which there no longer is a need to regulate the manner in which some LECs allocate costs, it also is needlessly rigid. This is because the agency would require all regulated LECs to use the same accounting methodology and factors to allocate costs rather than giving each LEC flexibility to select an allocation approach which produces reasonable results in its particular circumstances.

The Commission can correct the shortcomings of its proposals. In Part I of these Comments, SNET recommends that the agency adopt a mechanism that automatically eliminates cost allocation regulation for a LEC once that LEC becomes subject to effective competition or once that LEC's telephony prices are regulated under price cap plans. For those LECs whose allocation of costs will be regulated, SNET proposes in Part II that the agency authorize a reasonable range of alternative plans for allocating costs as consistent with FCC policy. The Commission should make clear that a LEC may use any of these alternatives. In this regard, SNET also describes in Part II its proposal to allocate costs to assure that telephone ratepayers benefit from the introduction of broadband networks, and it asks the Commission to include that allocation procedure as one of the allocation approaches it approves. Under the SNET plan, SNET would directly assign to cable service all costs for which cable service is directly responsible, and it would allocate 50 percent of all new broadband loop common costs to cable service. SNET also clarifies that it would use this 50/50 common cost allocator to allocate the common costs of its new broadband loop plant between telephony and broadband service, not between regulated and non-regulated service as assumed by the Commission. SNET also makes clear that it does not support a requirement that all LECs use a uniform, unvarying fixed factor to allocate common loop costs. Finally, SNET asks in Part III that the Commission make plain that whatever cost allocation requirements it imposes on LECs be equally applicable to incumbent cable TV operators.

## DISCUSSION

### I. The Commission Should Adopt a Transitional Mechanism In Which the FCC Automatically Discontinues Regulating Cost Allocations of a LEC that Is Subject Either to Price Cap Regulation or to Effective Competition

Although the Commission proposes to regulate the manner in which all LECs allocate costs of their broadband networks, no public policy would be served by imposing these regulations either on a LEC whose telephony prices are controlled by price cap regulation or on a LEC whose telephony market is subject to effective competition as evidenced by the existence of an interconnection agreement which has been approved under Section 252(e) of the Communications Act.[1/] Below, we explain why the public interest requires that the Commission adopt transitional cost allocation requirements which terminate automatically for any LEC which meets either of these criteria.

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[1/] See note 7, infra, for a description of the provisions that must be included in an interconnection agreement in order for the agreement to qualify for approval under Section 252(e). No interconnection agreement has been approved yet under Section 252(e).

### A. The Public Interest Is Not Served By Regulating the Cost Allocations of LECs Whose Telephone Rates are Controlled by Price Cap Regulation

The Commission should not regulate a LEC's allocation of costs between regulated telephony and non-regulated service if the LEC's prices for regulated telephony are fully subject to price cap regulation. Cost allocation rules are not needed for price-cap-regulated LECs because such LECs have little incentive, and no real ability, to misallocate costs. Price cap regulation, by its nature, prevents a LEC from recovering any costs that may be misallocated to telephony since prices cannot be increased based on increased costs.

For example, SNET has no real ability to shift the burden of investments made for non-regulated services to local residence telephony ratepayers. Under SNET's price cap plan for intrastate services, local rates are frozen until 1998, with no increase permitted thereafter absent a TSLRIC showing.[2/] While it may be argued that SNET, under the Commission's current price cap plan governing interstate access service, has a theoretical ability to shift interstate telephony costs to regulated ratepayers since it is subject to a potential sharing obligation, that ability does not exist in practice even today for two reasons: First, the competitive marketplace will prevent overpricing of services as alternative access providers expand operations in Connecticut; and, second, improper cost shifting would be easily identified since

[2/] Total Service Long Run Incremental cost (TSLRIC) studies, by definition, do not contain allocations of common costs.

SNET is subject to comprehensive audits of its accounting records. Certainly at the time SNET's interstate access prices are controlled under pure price cap regulation, cost allocation requirements should be removed since its ability to shift the burden for cost recovery of non-regulated services to telephony ratepayers would be nonexistent.

It is ironic that the Commission would propose to continue to regulate cost allocation for price-cap-regulated LECs because the FCC itself has found that price cap regulation reduces a LEC's incentive to misallocate costs. For example, the Commission has held that price cap regulation "substantially decrease[s] incentives to shift costs from more to less competitive service offerings" and "reduce[s], if not eliminate[s], any perverse incentive to inflate [the] rate base."[3/] Similarly, the agency has correctly concluded that "price caps mitigate misallocation as a regulatory concern".[4/]

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[3/] <u>Policy and Rules Concerning Rates for Dominant Carriers</u>, <u>Notice of Proposed Rulemaking</u>, 2 FCC Rcd. 5208, 5213 (1987).

[4/] <u>Policy and Rules Concerning Rates for Dominant Carriers</u>, <u>Second Report and Order</u>, 5 FCC Rcd. 6786, 6792 (1990). The D.C. Circuit likewise has found that "the FCC move in the direction of price cap regulation . . . reduces the [the LEC's] ability to shift costs . . . because the increase in costs for the regulated [service] . . . does not automatically cause an increase in the legal rate ceiling [for regulated service]." <u>U.S. v. West Elec. Co.</u>, 993 F.2d 1572, 1580 (D.C. Cir. 1993).

B. No Sound Policy Is Served by Regulating the Cost Allocations of a LEC Whose Telephony Market Is Open to Competition As Evidenced by the Existence of An Interconnection Agreement Which Has Been Approved Under Section 252(e) of the Act

Section 10 of the Communications Act[5/] also requires that the Commission forbear from regulating a LEC's cost allocations in any geographic area covered by an interconnection agreement which has been approved under Section 252(e) of the Communications Act.[6/] Section 10 of the Act prohibits enforcement of <u>any</u> FCC regulation if enforcement is unnecessary either "to ensure that the charges . . . for . . . [telephony] are just and reasonable" or to "protect consumers" and if forbearance from enforcement "is consistent with the public interest".

Section 10 requires that the Commission forbear from regulating the cost allocations of any LEC with an approved agreement under Section 252(e) since regulation of that LEC's cost allocations is not necessary to meet the objectives set forth in Section 10. This is so since Section 252(e) establishes the procedure by which an interconnection agreement between a LEC and another carrier may be approved and ensures that approval will occur only if the terms of the agreement provide that other carrier with all

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[5/] 47 U.S.C. §160.

[6/] 47 U.S.C. §252(e)

services and facilities necessary to compete effectively in the LEC's telephony market.[7]

First, regulating the cost allocations of a LEC with an approved interconnection agreement is not necessary to ensure that its charges for telephony are "just and reasonable" as that term is used in Section 10. Regulating cost allocations arguably is necessary to ensure that regulated telephony prices are just and reasonable only if the LEC has "bottleneck" control of facilities and services necessary to provide telephony since a LEC of that type may have an incentive to misallocate, to telephony, costs that should be allocated to non-regulated service. But a LEC no longer has bottleneck control when it has opened its network to competition as evidenced by the existence of an approved agreement under Section 252(e). Instead, it is subject to effective competition. A LEC which is subject to effective competition has no incentive to overallocate costs to telephony. Any attempt to engage in such cost misallocation would require the LEC to overcharge for telephony which, in turn, would cause it to lose market share to a competitor.

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[7] Section 252(e) provides that an interconnection agreement may be approved only if it opens the LEC's exchange market to competition in a manner that has been voluntarily agreed to by the LEC and a competitor or if it opens the LEC's market to competition by including provisions which, among other things, require the LEC to (1) make available specified network elements to the competitor at a price based on the LEC's cost to provide such elements; (2) permit the competitor to collocate its equipment at the LEC's premises; (3) provide the competitor with the LEC's retail services at a wholesale price for resale to consumers; and (4) provide the competitor with dialing parity and telephone number portability.

Nor is regulating the cost allocations of a LEC with an approved agreement under Section 252(e) necessary to "protect consumers" as that term is used in Section 10. Consumers benefit from the protection afforded by regulating a LEC's allocation of costs only if the LEC has a substantial incentive to misallocate costs in the absence of regulation. But a LEC whose telephony market is open to competition pursuant to an approved interconnection agreement under Section 252(e) has no incentive to harm consumers by misallocating costs as shown above.

Eliminating cost allocation rules for a LEC with an approved agreement under Section 252(e) also is "consistent with the public interest" as that term is used in Section 10 because it would end regulation that serves no useful purpose, would permit the subject LEC to respond to market forces in a more timely manner by relieving it of the need to get FCC approval before reallocating costs, and would save money. In the aggregate, LECs spend tens of millions of dollars each year in order to maintain the records necessary to comply with the FCC's cost allocation rules. The Commission likewise spends a substantial sum to administer these requirements.

In sum, the Commission has sound policy support for issuing only transitional rules that terminate automatically for any LEC which is subject either to effective competition or to price-cap regulation as discussed above. In adopting transitional rules, the Commission would support the pro-competitive goals of the 1996 Telecommunications Act while providing a positive incentive for

LECs to enter into interconnection agreements that can be approved under Section 252(e).

## II. Rather than Require All Regulated LECs to Allocate Costs Under the Same Approach, the Commission Should Instead Authorize a Reasonable Range of Alternatives for Allocating Costs, Including the One Developed by SNET

### A. Requiring All Regulated LECs to Allocate Costs In the Same Manner Would Be Contrary to the Public Interest

Just as no useful purpose is served by mandating cost allocation requirements for a LEC whose prices are controlled by price caps or whose telephony market is subject to effective competition, no useful purpose is served by requiring the LECs who <u>will</u> be subject to the Commission's cost allocation rules to use the same fixed factor to allocate common loop costs. As a preliminary matter, any requirement to allocate a specific portion of common costs to either regulated or non-regulated services is inherently arbitrary as the Commission itself recognizes:

> "Economists would say that in order to give incumbent . . . [LECs] the proper incentives to build multi-service facilities . . . cost allocated to each individual service . . . should be less than the stand-alone cost but greater than the incremental cost."[8/]

More importantly, requiring all LECs to use the same fixed factor to allocate common loop costs might preclude some LECs from recovering their costs since no single fixed factor can account for differences in technology, differences in usage patterns, and differences in costs. For example, while a LEC whose broadband network architecture includes relatively few common costs might be

[8/] Notice at ¶20.

able to recover its broadband costs with a factor that allocates a large percentage of common loop costs to non-regulated service, a LEC having substantially more common costs might be unable to do so. Similarly, a LEC providing a non-regulated service in an area where demand for such service is highly price inelastic might be able to recover its costs using a single prescribed fixed factor for loop cost recovery, while a LEC offering the same non-regulated service in an area where demand is highly price elastic might be unable to do so.

Although the Commission recognizes that requiring all LECs to use the same fixed factor to allocate common loop costs may have the effect of preventing some LECs from recovering their costs, it suggests that this negative consequence may be outweighed by the fact that a single fixed allocation factor would be easy to apply and easy to audit.[9] SNET supports simplicity as an important goal in reforming existing cost allocation rules, but simplicity must give way to an approach that allows more flexibility for LECs to react to changes in technology, demand, and cost. A fixed factor cannot reasonably account for the dynamics of a competitive marketplace. The introduction of new services and new technologies should not be constrained by a uniform fixed factor for all LECs.

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[9] Id. at ¶41-42.

## B. The Commission Should Hold that SNET's Proposed Approach Is Consistent with the FCC's Objectives

SNET's regulated and non-regulated businesses are structured very differently than the regulated and non-regulated businesses of other LECs. Southern New England Telecommunications Corporation is the parent corporation of both SNET ("telco"), SNET Diversified Group and SNET Personal Vision. The telco provides regulated telephone service throughout virtually all of Connecticut. The telco owns all regulated plant and allocates 100 percent of that plant on its books to regulated activities. All non-regulated services are provided either by the Diversified Group, by Personal Vision, or by another non-regulated affiliate of the telco's parent. Since the telco provides only regulated services, it is not required to protect telephony ratepayers by dividing assets and expenses into discrete cost pools and then allocating these pools between regulated and non-regulated activities. Rather, the Commission's affiliate transaction rule (Section 32.27) requires that SNET protect telephony ratepayers from possible cost misallocation by conducting all transactions between the telco and an affiliate in accordance with the requirements of that rule. SNET complies with those requirements.

With these differences in mind, the Commission should not mandate a single unvarying approach to cost allocation for all LECs. It can achieve its objective for simplicity, however, by authorizing a limited number of reasonable alternatives and then allowing each LEC to choose the approach that best meets its needs.

Specifically, SNET asks the Commission to permit a LEC to provide regulated telephone transport service to a non-regulated affiliate pursuant to the requirements of the affiliate transaction rule. Proceeding in this fashion would achieve the agency's objective of providing LECs with easy-to-apply guidance on how they may allocate costs by providing a "safe harbor" for a LEC using any approved approach to protect telephone ratepayers from misallocated costs.

The fact that the affiliate may use the LEC's transport service for the provision of non-telephony services does not change the character of the regulated transport service being provided and, therefore, should not obligate the LEC to allocate its regulated transport investment among regulated and non-regulated service categories. The affiliate's use of the regulated transport capability to provide a non-regulated service is essentially irrelevant to the question of how to account for the transactions between the regulated LEC and a non-regulated affiliate. What is relevant is that the affiliate transaction rule assures that the LEC's regulated telephone ratepayers do not bear the burden of any direct costs incurred by the affiliate, but that they do receive a revenue contribution from the affiliate's use of the regulated network transport.

SNET wishes to clarify the record with regard to its 50/50 common cost allocation proposal. The Commission incorrectly characterizes SNET's proposal as allocating the common costs of the loop equally between "regulated and nonregulated activities."[10/]

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[10/] Id. at ¶39.

In fact, SNET would apply the 50/50 allocator (after direct assignment of all directly attributable costs) by dividing broadband loop common costs equally between telephony and broadband services rather than by splitting these costs equally between regulated and non-regulated services. Initially, telephony and cable TV service each would bear 50 percent of these common costs. But as new broadband services are added, the relative percentage of common costs allocated to each of these two categories would decline regardless of whether the new services are "regulated" or "non-regulated". The Commission's comment "that a panoply of broadband-based, nonregulated services will share facilities with regulated services"[11] ignores the likelihood that some new broadband services may be regulated.

The Commission's proposal to require all LECs to use an identical fixed factor in allocating common loop costs should not be adopted because it offers little in the way of needed flexibility to the LEC industry. Although simple to apply and administer, the Commission should authorize a limited number of alternative approaches for allocating such common costs rather than mandating a single, unchanging fixed factor for all LECs. The dynamics of the industry, the technology, and the marketplace all suggest that some level of flexibility is necessary. A range of fixed factors that can be selected under "safe harbor" provisions offers the flexibility needed by LECs and the simplicity sought by all. SNET believes that the 50/50 factor it proposes to allocate its new

[11] Notice at ¶2.

broadband loop costs is a reasonable alternative that should be included in the Commission's "safe harbor" provisions.

SNET has developed a methodology for allocating all broadband network costs, including common loop costs, which would prevent misallocation and is consistent with the Commission's announced objective to simplify the way in which the agency regulates cost allocations. We describe that methodology below, and we request that the Commission authorize SNET to use it.

Before we describe SNET's plan, a little background information may be useful. As the Commission knows, SNET is beginning the third year of a 15-year, $4.5 billion plan to modernize its telephone infrastructure throughout Connecticut. In part, the modernization includes deployment of a hybrid fiber/coaxial ("HFC") broadband network. This HFC network will permit each household and business within SNET's telephone service area to be connected to a SNET central office <u>via</u> the HFC facilities. These HFC facilities will enable SNET to provide telephone service at higher quality, with more efficiency, and at substantially lower cost than otherwise would be possible.

In addition, SNET's new HFC network will permit the company to offer a variety of broadband services, including high-speed Internet access and transport for the cable TV offering of its affiliate. Broadband services cannot be provided effectively over the existing narrowband network.[12/]

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[12/] SNET does not consider ADSL technology to be an effective means to provide broadband services over a narrowband network due to ADSL's inherent technical limitations.

Cable TV should be the first broadband service which is provided over SNET's HFC network. Early this year, Personal Vision, a wholly-owned subsidiary of SNET's parent, applied for a franchise to provide cable service throughout Connecticut, including all of SNET's service area.

With this background, we now describe the manner in which SNET proposes to allocate the costs it incurs in deploying and operating its new HFC infrastructure. We also show that there are sound reasons to permit SNET to implement its planned approach.

### 1. An Agreement Between Personal Vision and SNET Ensures that Telephony Will Not Subsidize Cable TV Service By Requiring Personal Vision to Bear All Costs Incurred Directly to Benefit Cable Service

SNET will allow Personal Vision to use SNET's HFC network for transmitting cable TV signals between SNET's central offices and Personal Vision's cable TV subscribers by providing it with a broadband transport service. SNET will charge Personal Vision for that service in an amount which is calculated in accordance with the methodology set forth in a Shared Services Agreement between SNET and Personal Vision. That Agreement was entered pursuant to the FCC's affiliate transaction requirements in Section 32.27 of the Rules. That rule requires a LEC which provides a service to an affiliate, but not others, to enter into its regulated revenue accounts a charge for the service which is calculated in accordance with the FCC's cost allocation rules.[13] This inclusion of

[13] See Section 32.27(d) of the Rules.

revenue on the LEC's regulated telephony books has the effect of reducing the LEC's telephony costs by the amount of the included revenue.

In order to calculate the included revenue amount, the SNET/Personal Vision Agreement first requires that Personal Vision bear all incremental costs associated with its use of SNET's HFC network. These costs are calculated as the sum of (i) the unit costs of assets incrementally required for the provision of broadband service, (ii) the incremental depreciation, return, and tax costs associated with this unit investment, and (iii) the maintenance and other direct expenses for the HFC facilities used by Personal Vision. By requiring that Personal Vision bear all of its incremental costs, the SNET/Personal Vision Agreement ensures that Personal Vision's cable service will not be subsidized by SNET's telephone ratepayers as Dr. William Taylor explains in an affidavit attached to these Comments.

2. By Requiring that Personal Vision Bear Fifty Percent of All Common Costs Associated with Deploying And Operating SNET's HFC Network, the Agreement Also Ensures that Cable Service Will Make a Reasonable Contribution to the Recovery of HFC Network Common Costs

Not only does the SNET/Personal Vision agreement ensure that Personal Vision's cable service receives no subsidy from SNET's telephone ratepayers, the Agreement also relieves telephone ratepayers from the obligation to pay for 50 percent of all broadband loop common costs associated with SNET's HFC network. The proposed 50/50 factor to allocate broadband loop common costs may be thought of as premised on the optimistic assumption that Personal Vision and SNET each may ultimately have an equal number of subscribers or, put differently, that each home passed by the HFC network may ultimately subscribe to both SNET telephone service and Personal Vision cable service. The connection is available for both uses. In any case, it is plain that SNET's telephone ratepayers benefit since those ratepayers bear no more than 50 percent of the broad-band loop common costs and none of the costs directly attributable to Personal Vision's cable service.

While a 50/50 factor for allocating broadband loop common costs may not produce reasonable results for many LECs for reasons discussed in Part IIA above, its use would further Commission objectives for a LEC who can reasonably use it. First, there is no reasonable argument that a LEC's multi-channel video service sub-scribers fail to bear a fair share of broadband loop common costs when those video subscribers bear 50 percent of all such costs as Dr. Taylor explains in his affidavit, which is attached. Second, by basing the allocator on maximum future relative subscribership projections, a 50/50 allocator avoids the uncertainty inherent in any allocator containing a true-up mechanism to adjust for future subscribership which varies from the projections upon which the initial allocator was based. Third the 50/50 allocator SNET pro-poses is flexible in that the percentage of common loop costs allo-cated both to telephony and to cable service can be reduced in the future as additional broadband services (whether regulated or non-regulated) are added. In this respect, the 50/50 allocator SNET proposes is not truly a "fixed" allocator, but instead gives a LEC using it the flexibility necessary to adapt to future uses of its broadband network. Finally, the 50/50 allocator SNET proposes is easy to apply for the LECs who use it and easy for FCC and independent accountants to audit.

### 3. While SNET's Proposed Allocation Methodology Is Generally Consistent with the FCC's Proposals, There Are Sound Reasons to Deviate from the FCC's Approach In the Few Ways In Which The Two Plans Differ

In most ways, the allocation approach SNET suggests is consistent with the FCC's proposals in this proceeding. First, it would ensure that all incremental costs SNET incurs so that Personal Vision may use SNET's HFC network are attributed directly to Personal Vision. As indicated above, these incremental costs will cover all HFC investment costs for which Personal Vision is directly responsible.[14] Incremental costs also will include all network-related expenses (including network maintenance expense) as well as marketing expense and overhead for which Personal Vision is directly responsible, just as the FCC proposed.[15]

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[14] Examples of equipment costs that would be directly assigned to Personal Vision include broadband optical transmitters (lasers); optical fiber, certain amplifiers, splitters and combiners; and central office bays used specifically to house such broadband equipment. All spare equipment of this type likewise would be attributed directly to Personal Vision.

[15] See Notice at ¶¶47-48 (proposing direct assignment of network-related expenses, including marketing); id. at ¶49 (proposing direct assignment of marketing expense); id. at ¶50 (proposing direct assignment of overheads).